

COMMITTEE ON LEGISLATIVE RESEARCH
OVERSIGHT DIVISION

FISCAL NOTE

L.R. No.: 0796-01
Bill No.: HB 171
Subject: Elderly; Revenue Dept.; Taxation and Revenue - General and Income; Veterans
Type: Original
Date: January 31, 2001

FISCAL SUMMARY

ESTIMATED NET EFFECT ON STATE FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
General Revenue	(\$31,793,607)	(\$142,567,923)	(\$154,838,702)
Total Estimated Net Effect on <u>All</u> State Funds	(\$31,783,607)	(\$142,567,923)	(\$154,838,702)

ESTIMATED NET EFFECT ON FEDERAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Total Estimated Net Effect on <u>All</u> Federal Funds	\$0	\$0	\$0

ESTIMATED NET EFFECT ON LOCAL FUNDS			
FUND AFFECTED	FY 2002	FY 2003	FY 2004
Local Government	\$0	\$0	\$0

Numbers within parentheses: () indicate costs or losses.
This fiscal note contains 5 pages.

FISCAL ANALYSIS

ASSUMPTION

Officials of the **Department of Revenue (DOR)** state this legislation allows a subtraction for social security benefits and military retirement benefits, to the extent they are included in the taxpayer's federal adjusted gross income. This legislation will become effective January 1, 2002.

ADMINISTRATIVE IMPACT:

According to the Spring 1999 Federal Statistics of Income Bulletin, there are 166,486 federal returns filed in Missouri with social security benefits included in federal adjusted gross income (AGI). However, the number of Missouri taxpayers with taxable military benefits is unknown. Therefore, the number of taxpayers eligible for this subtraction is unknown at this time. The Division of Taxation will need one temporary tax season employee (a cost of \$6,067) for every 37,500 returns filed with this subtraction and one Tax Processing Tech I for every 3,000 pieces of correspondence received regarding the subtraction. The Division of Taxation will also need one Tax Processing Tech I for every 30,000 errors generated by this legislation. Customer Assistance anticipates additional calls from this legislation and will need one Collection Technician I for every 24,000 calls per year received due to this legislation.

This legislation will require modifications to the individual income tax system. The Division of Taxation estimates these modifications, including programming changes, will require 1,471 hours of overtime at a cost of \$49,838. Modifications to the income tax returns and schedules will be completed with existing resources. State Data Center charges will increase due to the additional storage and fields to be captured. Funding in the amount of \$9,007 is requested for implementation costs and \$9,570 for on-going costs.

Oversight assumes based on the number of federal returns filed last year in Missouri with social security benefits included in the federal AGI, DOR would need 4.5 temporary tax season employees. In addition, DOR would require 692 hours of overtime at a cost of \$34,600 for modifications to the income tax system. Oversight also estimates that funding for State Data Center charges would be \$9,007 for additional storage and fields to be captured.

REMOVE SOCIAL SECURITY BENEFITS FROM AGI

Officials of the **Office of Administration, Budget and Planning (BAP)** state the Spring 2000 Statistics of Income report that Social Security benefits in Missouri Adjusted Gross Income (AGI) for 1998 were \$1,407,822,000. This is the second year Social Security benefits have been reported by state, and it grew by 14% in Missouri. National Social Security benefits have been growing at about 18% annually since 1994. A 10% growth rate is used for this estimate. A 6% marginal tax rate is then used to determine the amount of individual income tax revenue lost to the state. BAP staff assume taxpayers will not adjust their withholdings in FY02 to take

ASSUMPTION (continued)

advantage of this proposal, causing the revenue impact not to be felt until FY03. The amount of revenue loss is \$0 in FY 2002, \$123.7 million in FY 2003 and \$136.0 million in FY 2004.

BAP staff defers to Oversight's estimate of military pension income.

Oversight estimates a loss to the General Revenue Fund of \$27,050,000 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of Social Security benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

REMOVE MILITARY RETIREMENT BENEFITS FOR AGI

Based on information provided by the U.S. Department of Defense, Office of the Actuary, **Oversight** estimates the revenue impact of this proposal as a loss to General Revenue of \$18.8 million annually. There are approximately 33,473 military retirees in Missouri. Of that number, 30,517 receive a payment for their pension. Pension payments for military retirees in Missouri total \$496,668,000 annually. The average annual pension is \$16,275 (\$496,668,000 divided by 30,517 retirees). Subtracting the \$6,000 that is already exempt from the average annual pension left a difference of \$10,275. Multiplying the \$10,275 by the number of Missouri retirees (30,517) equals \$313,566,000. Using a marginal income tax rate of 6% generates a loss of approximately \$18.8 million annually

Oversight estimates a loss to the General Revenue Fund of \$4,700,000 for FY 2002 due to the possibility of reduced withholding and estimated income tax payments for five months of calendar year 2002. **Oversight** assumes 25% of Missouri taxpayers would adjust payments, however it should be noted that this amount could be less depending on taxpayers' awareness of the deductibility of military retirement benefits in determining state income tax and their desire to adjust withholdings or estimated payments.

This proposal would result in a decrease in Total State Revenues since the Individual Income tax collections are included in the calculation of Total State Revenue.

FISCAL IMPACT - State Government

FY 2002
(6 Mo.)

FY 2003

FY 2004

GENERAL REVENUE FUND

<u>FISCAL IMPACT - State Government</u>	FY 2002 (6 Mo.)	FY 2003	FY 2004
<u>Loss to General Revenue Fund</u>			
Deduction of Social Security Benefits	(\$27,050,000)	(\$123,700,000)	(\$136,000,000)
Deduction of Military Retirement	<u>(\$4,700,000)</u>	<u>(\$18,800,000)</u>	<u>(\$18,800,000)</u>
Total <u>Loss</u> - GR	(\$31,750,000)	(\$142,500,000)	(\$154,800,000)
<u>Cost - Department of Revenue</u>			
Personal Service (4.5 FTE)	\$0	(\$27,301)	(\$27,984)
Fringe Benefits	\$0	(\$9,099)	(\$9,327)
Expense and Equipment	\$0	(\$31,523)	(\$1,391)
Reprogramming Costs	<u>(\$43,607)</u>	<u>\$0</u>	<u>\$0</u>
Total <u>Costs</u> - DOR	(\$43,607)	(\$67,923)	(\$38,702)
ESTIMATED NET EFFECT ON GENERAL REVENUE FUND	<u>(\$31,793,607)</u>	<u>(\$142,567,923)</u>	<u>(\$154,838,702)</u>

<u>FISCAL IMPACT - Local Government</u>	FY 2002 (10 Mo.)	FY 2003	FY 2004
	\$0	\$0	\$0

FISCAL IMPACT - Small Business

No direct fiscal impact to small businesses would be expected as a result of this proposal.

DESCRIPTION

This bill authorizes the subtraction from a taxpayer's federal adjusted gross income of any amount of Social Security benefits included when calculating their Missouri adjusted gross income. Under current law, annuities, pensions, retirement allowances, and other retirement benefits provided to any person for military service are subject to a limited state income tax deduction of up to \$6,000 of the benefits paid based on the income of the taxpayer. The bill will exempt from state income tax the total military pension benefits received, regardless of income or the amount.

The bill will become effective January 1, 2002.

DESCRIPTION (continued)

This legislation is not federally mandated, would not duplicate any other program and would not require additional capital improvements or rental space.

SOURCES OF INFORMATION

Department of Revenue
Office of Administration
Division of Budget and Planning

A handwritten signature in black ink, appearing to read "Jeanne Jarrett". The signature is stylized with a large initial "J" and a cursive "e" at the end.

Jeanne Jarrett, CPA
Director

January 31, 2001